

Message Text

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64

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DEPT PASS TO USDOC FOR MEPD

DEPT PASS TO BUMINES FOR NAHAI

E.O. 11652: GDS

TAGS: EMIN BEXP ID

SUBJECT: ALCOA PAUSES TO REGROUP ON GIANT ALUMINA
PROJECT IN KALIMANTAN

1. SUMMARY. PREISDENT-DIRECTOR OF ALCOA'S INDONESIAN
SUBSIDIARY P.T. ALCOMIN DISCLOSED CONFIDENTIALLY IN
CONVERSATION WITH EMBOFF NOVEMBER26 THAT DEVELOPMENT
OF GIANT ALUMINA RPT ALUMINA PRODUCTION FACILITY
IN WEST KALIMANTAN MUST BE POSTPONED PENDING NEW
FINANCIAL ARRANGEMENTS. THIS IS CONCLUSION OF
RECENT STUDIES WHICH SHOW DIRECT CONSTRUCTION COSTS
OF CIRCA \$660 MILLION, FAR EXCEEDING COMPANY'S
PREVIOUS EXPECTATIONS. END SUMMARY.

2. ALCOMIN SUBMITTED FEASIBILITY STATEMENT TO
DEPARTMENT OF MINING 31 OCTOBER, ALSO MAKING
RELINQUISHMENT OF LAND TO FINAL EXPLORATION AREA
OF 500,000 HECTARES. STUDY CONFIRMS PROJECT
FEASIBLE FROM TECHNICAL AND RESOURCE STANDPOINTS BUT
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RAISES SERIOUS FINANCIAL QUESTIONS. FEASIBILITY

JUDGMENT IS BASED ON MINIMUM PLANT CAPACITY OF 1.6 MILLION ANNUAL TONS ALUMINA, OR TWICE THE SIZE CONTEMPLATED UNTIL RECENTLY.

3. PER ALCOMIN'S PRESIDENT-DIRECTOR JAMES POST, RECENT ENGINEERING STUDIES DISCLOSE CONSTRUCTION COSTS FOR MINE, PLANT, AND INFRASTRUCTURE (THE LATTER BEING ESPECIALLY BUDENSOME) IN NEIGHBORHOOD \$660 MILLION IN 1974 DOLLARS, GREATLY EXCEEDING COMPANY'S EXPECTATIONS. HE ESTIMATED TOTAL DEVELOPMENT COST, TAKING ACCOUNT OF ADDITIONAL ELEMENTS LIKE INTEREST CHARGES, OVERRUNS, AND INITIAL OPERATING CAPITAL, WOULD APPROXIMATE TWICE THAT. IN CIRCUMSTANCES ALCOMIN HAS ASKED FOR MORE TIME TO DEVELOP NEW FINANCIAL SUPPORT FOR THE PROJECT. ALCOA HAS CANVASSED PRINCIPAL ALUMINUM PRODUCERS THROUGHOUT THE WORLD RE THEIR INTEREST IN PARTICIPATION AND HAS OBTAINED SOME ENCOURAGEMENT BUT NO CONCLUSIVE OFFERS.

4. POST STRESSED THAT ALCOA REMAINS VERY MUCH COMMITTED TO ALCOMIN VENTURE, AS DEMONSTRATED BY INVESTIGATION AND PLANNING EFFORT ALREADY POURED INTO IT, AND EXPLORATION ACTIVITY WHICH CONTINUES AT COST APPROXIMATING \$200,000 MONTHLY.

5. SOON AFTER REPORT SUBMITTED MINING MINISTER SADLI ASKED POST WHETHER ANYTHING THE GOI MIGHT DO WOULD FACILITATE PROJECT'S EARLY ENTRY INTO ACTIVE DEVELOPMENT PHASE. POST RECALLED THE INTEREST EARLIER EXPRESSED IN ACCELERATED AND INCREASED INDONESIAN PARTICIPATION IN THE PROJECT AND SAID THAT IN HIS PERSONAL OPINION RENEWED CONSIDERATION INDONESIAN EQUITY PARTICIPATION WOULD BE TIMELY. INDONESIAN PARTICIPATION OF 20 PER CENT OR AN INFUSION OF \$200 MILLION MIGHT BE CONSIDERED. ADDITIONALLY, GOI MIGHT CONSIDER SUPPORTING PROJECT WITH FINANCIAL GUARANTEE IN ORDER TO OBTAIN LOANS ON SOFTER TERMS. FINALLY, POST ASKED THAT GOI GIVE SERIOUS CONSIDERATION TO COMPANY'S REQUEST TO RECOVER CERTAIN AREAS PREVIOUSLY RELINQUISHED FOR INCLUSION IN FINAL 500,000 HECTARES TOTAL EXPLORATION AREA. POST
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THINKS DEPARTMENT OF MINING FAVORABLY DISPOSED TOWARD THIRD QUESTION, BUT HE IS VERY GUARDED ON OUTLOOK FOR FIRST TWO. (COMMENT: AS DEPARTMENT AWARE, CURRENT LIQUIDITY POSITION COULD MAKE GOI EQUITY ANTE HARD TO FIND IN SHORT RUN. THERE IS SOME PRECEDENT IN INCO PROJECT FOR GOI WILLINGNESS GUARANTEE LOANS IN BEHALF PROJECT IN WHICH IT DOES HOLD AN EQUITY.)

6. GOI HAS NOT HAD TIME TO STUDY ALCOMIN REPORT FULLY AND HAS MADE NO ANNOUNCEMENT CONCERNING IT. GOI APPARENTLY CONSIDERS ALCOMIN RESULTS HIGHLY SENSITIVE. (DEPARTMENT OF MINING HAS NOT EVEN BEEN WILLING TO PERMIT ALCOMIN TO RELEASE REPORT GO GOVERNOR OF WEST KALIMANTAN, ADMINISTRATIVE DISTRICT EMBRACING ALCOMIN WORK SITE.) POST STRESSED THAT IT WOULD BE EXTREMELY DAMAGING TO ALCOMIN IF INFORMATION ABOUT ITS REPORT SHOULD REACH THE PUBLIC FROM ANY OTHER SOURCE THAN DEPARTMENT OF MINING, A JUDGMENT IN WHICH WE CONCUR. EMBOFF PLEDGED USG COOPERATION IN HOLDING INFORMATION CLOSELY.
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